

RESEARCH AND DEVELOPMENT TAX CREDITS ARE OUT THERE. TIPS TO HELP CLIENTS (LARGE AND SMALL) ATTAIN MONEY OWED TO THEM

Many companies are being denied tax credits that they deserve. The research and development tax credit is under-utilized for two reasons: companies often have inadequate resources to devote to the process of documenting the claim. Second, many manufacturing companies do not realize that improvements to their products or processes often qualify for the credit.

There are ways to help your clients, both large and small

“The manpower and record-keeping requirements to fully document an R&D tax credit claim can be overwhelming for many companies,” says Ron Antal, managing director of Research Credit Group, one of the nation’s most experienced R&D tax credit advisory firms. “The same is true for CPA firms, which may need to dedicate inordinate resources to obtain adequate information from clients who wish to pursue the credit.”

Issues for Small Companies

Small to mid-size companies are having an even more difficult time. Even though small companies rarely submit R&D credit claims with “pre packaged documentation”, they seem to be held to a higher standard than those of their public and large private counterparts.

One explanation for the phenomena is that small companies lack the resources to withstand a prolonged fight with the IRS. Often times the IRS will ask small companies to produce voluminous amounts of documentation and back up for their R&D claims. Even when such documentation is produced, the IRS will still deny the R&D claim citing lack of proper documentation.

Quite recently, the IRS issued guidance to their Large & Mid-Size Business Division (LMSB) field auditors on how to analyze refund claims for research & development (“R&D”) tax credits. The guidance was in response to receipt by the IRS of numerous “pre-packaged R&D credit claim studies” that have generated hundreds of millions of dollars in refund claims.

The IRS issued this audit guidance to field agents because they feel the prepackaged claims are difficult to audit. A common scenario features a lengthy methodology discussion and an absence of supportive facts.

Ways for firms to help clients

To develop successful R&D tax credit claims, there are a few tips for CPA firms to keep in mind:

Don’t overcomplicate the process.

Track qualified expenses as soon as they take place.

Identify all employees involved in the research and development process.

Explain why projects qualify.

Don’t wait until the end of the year to “look back” and identify qualified R&D expenses.

Follow a logical process for how expenses were identified.

One other tool is a software developed by Antal, called CreditTrak™. Many CPA firms and a host of publicly traded and privately held companies of all sizes currently utilize CreditTrak™. It monitors and documents R&D projects and calculates related

expenditures, providing detailed, organized reports for submission to tax authorities. Unique in its field, says Antal, CrediTrak™ is the only R&D tax credit software recognized by the IRS.

CrediTrak™ relieves companies, CPA firms, etc., of the need to locate and review unwieldy stacks of expense records from clients' corporate accounting, tax and engineering personnel. The software assembles thorough project documentation without resorting to quizzing corporate employees to recall details of R&D projects that may have been completed months before. Better yet, firms can use this software to help clients and make the process a lot easier.

For corporate clients, the Automated Survey Management System gathers and continually updates in a single platform all of the information they need to successfully track technical and personnel data and to document and calculate all R&D-related expenses, without the need for time- and resource-consuming person-to-person investigations.

The software is capable of tracking qualified wages, supplies, contract-research expenses, invoices and receipts. It also performs Form 6765 and fixed-based percentage calculations automatically, as well as maintaining technical documents, engineering drawings, product-development processes, organizational charts and employee job descriptions